

Message Text

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ACTION EA-13

INFO OCT-01 SS-14 ISO-00 EB-03 COME-00 NSC-10 NSCE-00

TRSE-00 FPC-01 L-02 OMB-01 SCEM-01 H-01 CIAE-00

INR-10 NSAE-00 RSC-01 DRC-01 AID-10 PA-01 PRS-01

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FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 8711

INFO AMEMBASSY TOKYO

AMCONSUL MEDAN

S E C R E T SECTION 1 OF 2 JAKARTA 10889

LIMDIS

E.O. 11652: GDS

TAGS: ENRG,ID,JA

SUBJECT: LNG SALE TO PACIFIC LIGHTING

REF : JAKARTA 10752

SUMMAR. PERTAMINA/PACIFIC LIGHTING CONTRACT SIGNED SEPTEMBER 6 PROVIDES FOR SALE ABOUT FOUR MILLION METRIC TONS LNG PER YEAR AT 63 CENTS FOB PER MILLION BTU'S FOR TWENTY YEARS. THIS QUANTITY REPRESENTS HALF TOTAL OUTPUT BOTH PROPOSED LNG PLANTS BASED ON EARLY RESERVE FIGURES; HOWEVER, IT NOW APPEARS LIKELY TOTAL PRODUCTION MAY BE AS MUCH AS ONE THIRD MORE. DESTINATION OF INCREMENTAL NORTH SUMATRA OUTPUT REMAINS IN DOUBT: PACIFIC CONTRACT INCLUDES RIGHT OF FIRST REFUSAL ON ADDITIONAL ACEH PRODUCTION UP TO ONE BILLION CU.FT. PER DAY OUTPUT BUT JAPANESE PROBABLY ALSO EXPECT TO RECEIVE INCREMENTAL PRODUCTION. COMMENTING ON RADIUS PRAWIRO-JAPANESE AGREEMENT, IBNU INDICATED RADIUS HAD EXCEEDED AUTHORITY AND THAT JAPANESE APPEARED AT TIMES TO WANT GAS BADLY ENOUGH TO JEOPARDIZE COOPERATION WITH U.S. ON ENERGY MATTERS. AT AGREED PRICE MINIMUM VALUE OF PACIFIC CONTRACT
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TOTALS ABOUT \$3.2 BILLION, WITH MAXIMUM VALUE OF ABOUT \$3.8 BILLION WHEN ESCALATION AND MONETARY ADJUSTMENT CLAUSES TAKEN INTO ACCOUNT. SINCE JAPANESE HAVE AGREED TO PRICE EQUIVALENT TO \$1.10 C&F PER MILLION BTU'S, JAPANESE MAY PAY \$100 TO \$800

MILLION MORE FOR THE SAME QUANTITY OF GAS AS SOLD TO PACIFIC, DEPENDING ON OUTCOME NEGOTIATIONS AND OTHER COSTS INCLUDING FREIGHT AND INSURANCE. PERTAMINA GRANTED PACIFIC UNTIL SEPTEMBER 6, 1975 (TWO YEARS) TO OBTAIN FPC APPROVAL. PARTIES TO CONTRACT AGREED NOT RPT NOT TO DISCLOSE DETAILS OF CONTRACT UNTIL PACIFIC SUBMITS APPLICATIONS FOR FPC APPROVAL ABOUT FEBRUARY 1, 1974, WITH PERTAMINA SEEKING TO SIGN CONTRACT WITH JAPANESE BY JANUARY 1974. BASED ON NUMEROUS DISCUSSIONS, IT IS CLEAR TO US THAT UNDUE DELAY BY FPC OR UNFAVORABLE DECISION COULD HAVE SERIOUS CONSEQUENCES FOR FUTURE U.S. ECONOMIC ACTIVITY IN INDONESIA. END SUMMARY.

1. CONTRACT. WITH INSTRUCTIONS FROM GENERAL IBNU TO REACH AGREEMENT BY SEPTEMBER 6, PERTAMINA/PACIFIC LIGHTING CONTRACT SIGNED THAT EVENING PROVIDES FOR ULTIMATE DELIVERY OF ABOUT FOUR MILLION

METRIC TONS OF LNG ANNUALLY (EQUIVALENT TO ABOUT 550 MILLION CU.FT. DAILY) TO UNITED STATES AT FOB PRICE OF 63 CENTS PER ONE MILLION BTU'S (ONE CU.FT. LNG EQUALS ABOUT 1,150 MILLION BTU'S) OVER 20-YEAR PERIOD FROM PROPOSED PERTAMINA/MOBIL ARUN FIELD LIQUEFACTION PLANT, NORTH SUMATRA. (FYI. MINIMUM LANDED COST (C&F) LNG WEST COAST, EXCLUSIVE OF REGASIFICATION, WOULD BE \$1.28 PER MILLION BTU. EFA FYI.) CONTRACT CONTAINS NUMEROUS PROVISIONS INCLUDING ESCALATION CLAUSE (TWO PER CENT PER YEAR BEGINNING 1977) AND MONETARY ADJUSTMENT CLAUSE. MINIMUM VALUE OF PACIFIC CONTRACT TOTALS ABOUT \$3.2 BILLION; HOWEVER, ESCALATION AND MONETARY CLAUSES COULD INCREASE VALUE TO ABOUT \$3.8 BILLION. SIX SIDE LETTERS COVER INTER ALIA: 1) PACIFIC RIGHT OF FIRST REFUSAL ON OUTPUT IN EXCESS OF PRESENTLY PLANNED CAPACITY NORTH SUMATRA PLANT, AT NEGOTIATED PRICE, IF RESERVES JUSTIFY GREATER OUTPUT. (FYI. WIJARSO CONFIDENT GREATER NATURAL GAS RESERVES WOULD BE PROVEN. END FYI.); AND, 2) TIME PACIFIC LIGHTING PERMITTED TO OBTAIN FPC APPROVAL. SIDE LETTER CONCERNING FPC APPROVAL GRANTS PACIFIC TWO YEARS FROM DATE OF SIGNING (9/6/73) TO OBTAIN FPC APPROVAL AND TWO AND HALF YEARS TO OBTAIN FINANCING. IF PACIFIC HAS NOT OBTAINED FPC APPROVAL BY SEPTEMBER 6, 1975, PERTAMINA MAY GRANT PACIFIC ADDITIONAL TIME ON MONTH TO SECRET

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MONTH BASIS PROVIDED PACIFIC PAYS INCREASED CAPITAL COSTS RESULTING FROM DELAY. DETAILS OF CONTRACT, OTHER THAN THOSE REPORTED REFTEL, WILL NOT RPT NOT BE DISCLOSED BY PERTAMINA, MOBIL OR PACIFIC PRIOR TO FILING FPC APPLICATION ABOUT FEBRUARY 1, 1974. PERTAMINA INTENDS TO CONCLUDE CONTRACT WITH JAPANESE BY JANUARY 1, 1974. ADDRESSEES PLEASE HOLD INFORMATION CONCERNING AGREEMENT VERY CLOSELY.

2. QUANTITY. IN RESPONSE TO AMBASSADOR'S QUESTION ABOUT QUANTITIES OF LNG TO BE SOLD TO JAPAN AND U.S. DURING LUNCHEON SEPT 5 (MEMCON BEING POUCHED), GENERAL IBNU SAID SPLIT WOULD BE QUOTE TWO AND ONE UNQUOTE (MEANING TWO FOR JAPAN, ONE FOR U.S.). DURING SUBSEQUENT CONVERSATION, WIJARSO EXPLAINED SITUATION AS FOLLOWS.

INITIAL RESERVES STUDIES SHOWED MOBIL'S ARUN FIELD (SUMATRA) COULD PRODUCE ONE BILLION CUBIC FEET PER DAY INTO LIQUEFACTION PLANT WITH NET OUTPUT OF ABOUT 5.7 MILLION METRIC TONS/YEAR FROM FOUR PRODUCING TRAINS. (FYI. THESE PRODUCTION FIGURES WERE PRESENTED TO JAPANESE DURING NEGOTIATIONS IN TOKYO AUGUST 16-21. END FYI.) PRODUCTION FROM HUFFCO'S BADAQ FIELD (KALIMANTAN) IS EXPECTED TO PRODUCE ABOUT HALF AS MUCH FROM TWO TRAINS (ROUGHLY THREE MILLION METRIC TONS PER YEAR) RESULTING IN TOTAL INDONESIA LNG PRODUCTION OF ABOUT 8.8 MILLION METRIC TONS PER YEAR FROM BOTH FIELDS. ON BASIS THESE CALCULATIONS, PACIFIC LIGHTING WOULD BE RECEIVING ROUGHLY HALF (ABOUT FOUR MILLION METRIC TONS) OF TOTAL OUTPUT, WIJARSO SAID. HOWEVER, RECENT RESERVE STUDIES SHOW THAT MOBIL'S ARUN FIELD WILL BE ABLE TO PRODUCE PROBABLY FIFTY PER CENT MORE WITH A TOTAL OF SIX TRAINS, AND POSSIBLY 75 PERCENT MORE UTILIZING SEVEN TRAINS. IF ARUN FIELD CAPABLE OF SUSTAINING PRODUCTION FROM SEVEN TRAINS, THEN LNG WOULD BE PRODUCED FROM A TOTAL OF NINE TRAINS WITH PRODUCTION OF SIX TRAINS (ABOUT EIGHT MILLION METRIC TONS) TO BE NEGOTIATED WITH JAPANESE. (FYI. IT IS NOT CLEAR TO US IF PACIFIC'S RIGHT OF FIRST REFUSAL MENTIONED PARA 1 IS BASED ON ARUN FIELD OUTPUT FROM FOUR, SIX OR SEVEN TRAINS. END FYI.)

3. COORDINATION WITHIN GOI. IN RESPONSE TO AMBASSADOR'S QUEST AN ABOUT STATUS AND MEANING OF MEMORANDUM OF UNDERSTANDING DRAWN UP BETWEEN RADIUS PRAWIRO AND JAPANESE, IBNU SAID IT WAS SIGNED AFTER A GOI DECISION TO SECURE, OF THE \$700 MILLION FINANCING SOUGHT TO QD TWO LIQUEFACTION PLANTS AND LOADING FACILITIES, \$200 MILLION AS A GOVERNMENT-TO-GOVERNMENT CREDIT.

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IBNU SAID RADIUS PRAWIRO INCLUDED SEVERAL ITEMS IN MEMORANDUM THAT SHOULD NOT HAVE BEEN INCLUDED. IBNU INDICATED HE HAD ESTABLISHED AN UNDERSTANDING WITH THE JAPANESE ABOUT THE DIMISSION OF OUTPUT BETWEEN JAPAN AND U.S. IBNU ADDED, WITH SOME MOCK-346, THAT HE JAPANESE SPOKE IN ONE BREATH ABOUT COOPERATION WITH THE U.S. WHILE, IN THE NEXT, INDICATED THEY WANT ALL THE LNG. WIJARSO LATER TOLD EMBOFF THAT "JAPANESE MAY HAVE MISUNDERSTOOD RADIUS, THINKING HE MEANT YES WHEN HE DID NOT SAY NO."

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R 130235Z SEP 73

FM AMEMBASSY JAKARTA
TO SECSTATE WASHDC 8712
INFO AMEMBASSY TOKYO
AMCONSUL MEDAN

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4. FEDERAL POWER COMMISSION APPROVAL. MUCH OF DISCUSSION DURING LUNCHEON WITH IBNU CENTERED AROUND FPC PROCEDURES AND TIME REQUIRED FOR FPC DETERMINATION. THIS CONVERSATION AND SUBSEQUENT CONVERSATIONS WITH PACIFIC REPS AND WIJARSO INDICATE PERTAMINA, THOUGH INITIALLY VERY RELUCTANT, GAVE CONSIDERABLE GROUND ON TIME ALLOWED PACIFIC TO OBTAIN FPC APPROVAL BEFORE CONTRACT IS SUBJECT TO RENEGOTIATION. IT IS CLEAR THAT, SINCE PERTAMINA PLANS TO BEGIN LNG SHIPMENTS IN LATE 1977 OR EARLY 1978, RAPID AND FAVORABLE ACTION BY THE FPC IS CRITICAL. IBNU SAID JAPANESE HAVE AGREED TO C&F PRICE OF ABOUT \$1.10 PER MILLION BTU'S, THE FOB PRICE TO BE DETERMINED BY ACTUAL COST OF FREIGHT, INSURANCE AND MARKETING COSTS. (FYI. ASSUMING PERTAMINA SELLS ABOUT FOUR MILLION METRIC TONS ANNUALLY TO THE JAPANESE AT \$1.10 C&F PER MILLION BTU'S WITH FREIGHT COST OF 30 CENTS PER MILLION BTU'S, THE FOB PRICE TO JAPAN WOULD BE 80 CENTS PER MILLION BTU'S, 17 CENTS HIGHER THAN THE PRICE NEGOTIATED WITH PACIFIC. IF FOB PRICE WERE 80 CENTS, THE JAPANESE COULD PAY AS MUCH AS \$800 MILLION MORE OVER A 20-YEAR PERIOD. HOWEVER, SINCE ACCORDING OUR SOURCES, FREIGHT COSTS ARE LIKELY TO APPROACH 35 CENTS AND INSURANCE AND MARKETING COSTS MAY AMOUNT TO 10 CENTS, THE FOB PRICE COULD BE CLOSER TO SECRET

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65 CENTS MEANING THAT JAPANESE WOULD PAY ABOUT \$100 MILLION MORE. END FYI.) ACCORDING TO WIJARSO, IBNU WAS WILLING TO RECOMMEND TO PRESIDENT SUHARTO, AND SUHARTO AGREED, TO ACCEPT THE "COST" OF SELLING TO THE U.S. FOR FOLLOWING REASONS: A) TO HAVE AN ASSURED SALE; B) TO CONVINCE JAPANESE THAT INDONESIA IS SERIOUS ABOUT MOVING RAPIDLY; C) NOT TO PUT "ALL EGGS IN ONE BASKET"; AND, D) TO FOSTER GOODWILL WITH THE USG IN LIGHT OF MAGNITUDE PAST U.S. ASSISTANCE TO INDONESIA. WIJARSO SAID THIS WAS DONE ASSUMING FPC CONSIDERATION WOULD BE EXPEDITIOUS AND THE DETERMINATION FAVORABLE.

5. COMMENT. DURING LUNCHEON HOSTED BY AMBASSADOR FOR PACIFIC AND MOBIL REPS SEPTEMBER 7, RAY TOOD AND OTHER PACIFIC REPS EXPRESSED SATISFACTION WITH CONTRACT AND MUTUAL GOODWILL THEY BELIEVE ESTABLISHED BETWEEN PACIFIC LIGHTING AND PERTAMINA. WIJARSO TOLD EMBOFF THAT EVEN MOBIL APPEARED SATISFIED. (FYI. SEPTTEL FOLLOWS ON PERTAMINA/MOBIL DIFFICULTIES AND ON ATMOS-

PHERICS OF NEGOTIATIONS. END FYI.) WITH PHASE I NOW COMPLETED, PERTAMINA/JAPANESE NEGOTIATIONS WILL INTENSIFY AS WELL AS DISCUSSIONS CONCERNING FINANCING, DESIGN AND CONSTRUCTION OF LIQUEFACTION PLANTS, SHIPPING, INSURANCE, ETC.

6. HOWEVER, UPPERMOST IN THE MINDS OF THE INDONESIANS AND OF CRITICAL IMPORTANCE TO USG, IS HOW LONG IT WILL TAKE THE FPC TO ISSUE A FAVORABLE FULING. IN TALKING TO AMBASSADOR ABOUT THE TIME NEEDED FOR FPC APPROVAL, GENERAL IBNU SUTOWO HAS MADE IT CLEAR HE CONSIDERS IT OUT OF TUNE WITH THE TIMES TO REQUIRE AS MUCH AS 24 MONTHS FOR FPC APPROVAL. HE GAVE EVERY INDICATION THAT HE FEELS THAT THIS CAN AND WILL BE SPEEDED UP. TODD AND OTHERS, INCLUDING THIS EMBASSY, HAVE DONE THEIR BEST TO EXPLAIN THE EXTENSIVE LEGAL, ENVIRONMENTAL AND OTHER REQUIREMENTS WHICH MUST BE SATISFIED AND REQUIRE TIME. TODD SEEMED TO THINK THAT SOME PERTAMINA OFFICIALS UNDERSTAND AND ACCEPT THIS. MY IMPRESSION IS THAT GENERAL IBNU SUTOWO DOES NOT. AT LEAST IT GIVES HIM AN OUT SHOULD THE FPC APPROVAL TAKE TOO LONG, THE SITUATION WITH REGARD TO LNG CHANGE AND PRICE AND OTHER CONSIDERATIONS MAKE IT IN INDONESIA'S INTEREST FOR GENERAL IBNU TO RENEGOTIATE. IF THE FPC DECISION IS DELAYED AND/OR IS UNFAVORABLE, THERE COULD BE SERIOUS CONSEQUENCES FOR FUTURE U.S. ECONOMIC INTERESTS IN INDONESIA.

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7. DEPARTMENT MAY WISH PASS SUBSTANCE THIS MESSAGE TO EXIM. GALBRAITH

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Message Attributes

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